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H FOR MARK SMITH

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SUBJECT: SCENESETTER FOR CODEL INHOFE VISIT TO ETHIOPIA

¶1. Welcome to Addis Ababa! Your visit comes at a critical time for Ethiopia as the country works to strengthen democracy, promote economic reforms, and reduce poverty. Ethiopia is a strong partner in the global war on terrorism. The USG is currently leading diplomatic efforts to implement the long-stalled Algiers Accords which brought an end to the 1998-2000 war between Ethiopia and Eritrea.

DEMOCRACY AND HUMAN RIGHTS

¶2. The U.S. has been at the forefront of trying to rebuild the democratic process in the wake of the May 2005 elections and the ensuing civil disturbances of June and November. Charge Huddleston and European ambassadors facilitated an ongoing political dialogue between the ruling party and leaders of two opposition parties that chose to enter Parliament. Party representatives, supported by comparative studies funded by the U.S. and other donors, are discussing how to reform and strengthen democratic institutions including Parliament, the National Election Board and the media. After a de facto ban of the party post-November, Coalition for Unity and Democracy (CUD) moderates have re-registered their organization. The U.S. strategy has been to press the opposition and government alike to engage in a democratic process. Our commitment encourages the opposition parties to work within the democratic framework by taking their seats in Parliament, participating in a dialogue with the ruling EPRDF party, and forming a political party to represent the ex-CUD. The U.S. has also called upon the Government of Ethiopia (GOE) to protect human rights for all of its citizens and ensure a fair and transparent trial for those members of the CUD leadership who have been charged with capital crimes.

BORDER DISPUTE

¶3. Eritrea and Ethiopia concluded a two-year border conflict in 2000 with an Agreement on Cessation of Hostilities (Algiers Agreements). The U.S. was a witness to the Algiers Agreements. In April 2002, the Eritrea-Ethiopia Boundary Commission (EEBC), established under the Algiers Agreements, issued a final and binding decision delimiting the border. According to the Algiers agreements, both parties were to facilitate the demarcation of the border by the Commission, but Ethiopia initially objected to the decision, then accepted it "in principle" but under the condition that a broad political dialogue take place to address root causes of the conflict. Eritrea refused, stating that the border must be demarcated "as is." After three years of little progress, Eritrea imposed a series of restrictions on the UN's border monitoring force (UNMEE), leading to an increase in military deployments and tension along the border. In November 2005, the UN Security Council passed a resolution urging a

resumption of demarcation efforts. The USG has taken the diplomatic lead in support of the EEBC, which has convened twice this year in London, with representatives of both Ethiopia and Eritrea, to discuss steps necessary to resume demarcation of the border. The parties, which continue to have no formal diplomatic relations with each other, have nevertheless agreed to meet again under the auspices of the EEBC in June. The U.S. continues to work closely with the parties to resume demarcation of the border and promote an eventual normalization of relations.

ECONOMIC OVERVIEW

14. Since the early 1990's, Ethiopia has pursued a development strategy based on a mixed economy of both state and private enterprises. It has eliminated discriminatory tax, credit, and foreign trade treatment of the private sector, and tried to simplify bureaucratic regulations and procedures. However, the state remains heavily involved in most economic sectors, and parastatal and party affiliated companies continue to dominate trade and industry, hampering full and free competition for the emerging private sector. In addition, increasingly frequent cycles of drought, high population growth, and inefficient agricultural markets all put significant pressure on Ethiopia's economy. Greater economic liberalization and reforms are critical to reducing poverty and increasing food security. Ethiopia's GDP for 2005 is estimated at USD8.5 billion, with an annual per capita GDP of USD100. The economy grew by 7.3 per cent in 2005, and the inflation rate was 6.8 per cent. The economy is predominantly agricultural, with agriculture contributing 42 per cent to the GDP and employing 80 per cent of Ethiopia's 74 million people. Almost all agricultural production is rainfed. Major exports include coffee, oil seeds and pulses, and hides and skins, though non-traditional exports such as floriculture have increased significantly over the past few years and have strong growth potential. In 2005, Ethiopia's exports grew by over 30 percent, in part due to higher world coffee prices, though exports increased even faster, resulting in a growing trade deficit. With U.S. Government assistance, important progress was made in 2004 and 2005 in reforming tax administration and operations, reducing the number of days to register a business, and land certification. There has also been progress in the protection of intellectual property rights, including a new copyright bill adopted in June 2004. Ethiopia formally applied for WTO membership in January of 2003, and further reforms, particularly in the services sector, are expected as a result of the accession process. The USG, through USAID, is providing technical assistance on WTO accession and strongly supports the process as a tool to promote reforms and enhance food security.

U.S.-ETHIOPIAN TRADE RELATIONSHIP

15. U.S.-Ethiopian bilateral trade totaled approximately USD575 million in 2005, with U.S. exports concentrated in aircraft and related parts. In August 2005, Boeing concluded a US\$ 1.3 billion deal with Ethiopian Airlines for the sale of 10 Boeing 787 aircrafts. Ethiopia's exports to the United States were USD61.8 million in 2005, an increase of 50 per cent over 2004. There are no special barriers to U.S. trade and investment, though a limited number of sectors, including banking, continue to remain closed to foreign investment. Ethiopia's exports under AGOA, including GSP provisions, totaled approximately USD5 million in 2005. Though Ethiopia's exports under AGOA remain small compared with other eligible countries, strong potential exists in several key sectors, including garments/apparel, floriculture/horticulture, handicrafts, and leather products. The U.S. Government is actively working to support Ethiopia's participation in AGOA through both outreach/promotion efforts and technical assistance, and continues to actively engage the Government through the public-private sector AGOA Technical Committee established in late 2004.

POVERTY REDUCTION

¶16. Ethiopia remains one of the poorest countries in the world. Poverty alleviation and food security remain priorities for the government. The 2005/06 government budget allocations reflect poverty reduction priorities. The government has decreased military spending from 13 per cent of GDP in 1999/2000, during the border war with Eritrea, to 4.0 per cent of GDP in 2004/05, and is redirecting the savings to poverty reduction and capacity building efforts. In coordination with donors, the GOE is finalizing its 2006-2010 Plan for Accelerated and Sustainable Development to End Poverty in Ethiopia (PASDEP). In addition to continuing poverty reduction strategies in areas such as human development, rural development, capacity building, and food security, the new PASDEP will increase efforts in commercialization of agriculture, greater private sector participation in the economy, and scaling-up efforts to achieve the Millennium Development Goals. Ethiopia is participating in the enhanced Highly Indebted Poor Countries (HIPC) initiative and G8 Multilateral Debt Relief Initiative. The U.S. and Ethiopia signed a bilateral debt agreement in 2004 that provided 100 percent cancellation of Ethiopia's debt to the United States.

¶17. The United States provides both developmental and humanitarian assistance to Ethiopia, though we do not provide direct budget support (DBS). Last year we provided USD700 million for health, education and governance. USD 642 million was from USAID, which included approximately USD 465 million in food aid. Our objective is to help the Ethiopian government and people construct safety nets so that they will be less vulnerable to drought, disease and famine. As a result of post-election events in Ethiopia, donors providing direct budget support, including, among others, the World Bank, European Commission, the UK, and Canada, agreed to suspend DBS. These funds will be reprogrammed through a new program, the Protection of Basic Services Grant, which includes more targeted, tightly monitored aid at the regional and district level.

AFRICAN UNION/DARFUR

¶18. The African Union (AU) and U.S.-AU relations have come a long way since the official emergence of the AU from the OAU in July 2002. While the EU is currently the AU's largest donor and political partner, the AU looks to the U.S. for political support and engagement on key issues such as continental peace and security, terrorism, health challenges, trade and UN reform. The U.S. will be the first non-African country to have a separate mission to the AU. The AU looks to the USG for political support and dialogue. Regularizing policy planning talks with the AU and playing a lead role in new Addis-based AU coordination structures would enable us to achieve our shared goals with Africa. Building closer relationships with AU member state missions in Addis would also provide the USG with greater insight into AU decision-making processes and ensure U.S. views are considered.

¶19. AU engagement in Darfur through the African Mission in Sudan (AMIS) has been seen as a test of the new organization's political will, and of its ability to work with Western partners. Recent decisions of the AU Peace and Security Council endorsed the May 5 Darfur Peace Agreement (DPA) and also urged the AU Commission to work with partner countries to plan for the transition of the AU-led AMIS operation to a UN-led peacekeeping operation. U.S. policy goals include pressing non-signatories (such as the JEM and Abdulwahid faction of the SLM/A) to endorse the DPA prior to May 31, while providing tangible support to those parties that did sign (such as the Minni Minawi faction of the SLM/A). In addition to supporting DPA implementation, the

United States is also working closely with other partners (such as NATO, the European Union, Canada, and the UK) to enhance the capabilities of the current AMIS peacekeeping operation in Sudan, as well as to facilitate the transition to a UN peacekeeping operation. Resistance by the Government of Sudan (GOS) to allow a joint AU-UN assessment team to enter Sudan and begin planning has delayed the likely transition to a more robust UN operation. U.S. officials will participate in a UN Security Council visit to Sudan and Addis Ababa next week (June 5) to push these objectives.

HUDDLESTON